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Attorney for Arizona Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF AJO IMPROVEMENT COMPANY FOR
A RATE INCREASE

DOCKET NO. WS-01025A-03-0350

**NOTICE OF FILING
OF SUMMARY OF TESTIMONY**

Intervenor Arizona Water Company hereby files a summary of the Direct and Surrebuttal
Testimony of Sheryl L. Hubbard in the above-captioned docket.

DATED this 31st day of March 2004.

ARIZONA WATER COMPANY

By:

Robert W. Geake

Robert W. Geake
Vice President and General Counsel
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Phoenix, AZ 85038-9006

Arizona Corporation Commission

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1 An original and 13 copies of the
2 foregoing, and attached documents
3 were delivered this 31st day of
4 March, 2004, to:

5 Docketing Supervisor
6 Docket Control
7 Arizona Corporation Commission
8 1200 West Washington
9 Phoenix, AZ 85007

10 A copy of the foregoing was
11 Delivered this 31st day of
12 March, 2004, to:

13 Michael Patten
14 Roshka Heyman & DeWulf, PLC
15 One Arizona Center
16 400 East Van Buren Street, Suite 800
17 Phoenix, AZ 85004

18 Dan Neidlinger
19 Neidlinger & Associates
20 3020 North 17th Drive
21 Phoenix, AZ 85015

22 A copy of the foregoing was
23 mailed this 31st day of March, 2004 to:

24 Jane L. Rodda, Administrative Law Judge
25 Hearing Division
26 Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Christopher Kempley, Chief Counsel
Legal Division
1200 W. Washington Street
Phoenix, AZ 85007

Mr. Ernest G. Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

24 By: Robert W. Gabe
25
26

AJO IMPROVEMENT COMPANY

Docket No. W-01025A-03-0350

SUMMARY OF SHERYL L. HUBBARD PRE-FILED TESTIMONY ON BEHALF OF ARIZONA WATER COMPANY

Ms. Hubbard is employed by Arizona Water Company as Manager of Rates and Regulatory Accounting. Ms. Hubbard holds a B.A. from Michigan State University and is a Certified Public Accountant. Ms. Hubbard has twenty-five years of public utility accounting and regulation including Audit Manager with the Michigan Public Service Commission and Chief of the Accounting and Rates section of the Arizona Corporation Commission. She has testified in numerous proceedings involving utility rates and other regulatory matters. Ms. Hubbard prepared direct and surrebuttal testimony in support of Arizona Water's request for a wholesale rate design in this proceeding applicable to the 4-inch meter through which service is provided by Ajo Improvement. Ms. Hubbard's pre-filed testimony addresses the characteristics of the service provided by Ajo Improvement, which supports Arizona Water's request for the wholesale rate design.

1. Characteristics of Service Provided by Ajo Improvement to Arizona Water.

Ajo Improvement provides treated water to Arizona Water through one delivery point. Arizona Water owns, operates and maintains all of the plant facilities necessary to provide reliable water service to its nearly 700 customers. The Commission established a wholesale tariff and hourly (16,000 gph) and daily delivery limitations (384,000 gallons), which govern the manner in which Arizona Water operates its storage tank pumping operations. That tariff specifies that no more than half of the actual daily consumption shall be taken between 7:00 a.m. and 7:00 p.m. The delivery limitations relate to quantities of water delivered, authorizations necessary to exceed specified deliveries of water and charges for deliveries in excess of the maximum quantities specified when they are not expressly authorized by Ajo Improvement.

Arizona Water's two storage tanks are operated in a manner that reduces peak, daily and hourly demand on Ajo Improvement's system while still meeting the needs of Arizona Water's customers. Arizona Water's demand characteristics are typically off-peak, significantly differentiating its usage from that of Ajo Improvement's other customers and easing the burden on Ajo Improvement's water system.

In addition, Arizona Water does not have a large seasonal usage variation. This fact in conjunction with Arizona Water's demand characteristics provide Ajo Improvement benefits from economies of scale derived from the ability to operate its treatment facility without the normal increases and decreases in demand associated with on-peak and off-peak consumption that other water treatment facilities generally experience. Because of the level, off-peak characteristics of Arizona Water's usage, Ajo Improvement is able to operate its treatment facility with a relatively flat base load. This type of demand reduces the overall treatment cost, which is a benefit to all of Ajo Improvement's general service customers. Additionally, Arizona Water derives no benefit from Ajo Improvement's storage facilities because Arizona Water is

restricted to service during off-peak periods. Consequently, the service provided to Arizona Water by Ajo Improvement is not the same as Ajo Improvement's service to its other customers.

2. Rate Design for Ajo Improvement's 4" Meter Proposed by Arizona Water Company.

Ajo Improvement's and Staff's proposed rate designs do not recognize the service limitations under which Arizona Water receives water or exclude any of the costs that are not attributable to the provision of service to Arizona Water. When designing commodity rates that do not reflect the differences in the cost of service between Arizona Water and Ajo Improvement's other customers, a subsidy is provided by Arizona Water's customers to the customers of Ajo Improvement. Ajo Improvement's rate design increases Arizona Water's rates by 23.35% while their overall rate increase is 17.32%. The Commission Staff's rate design would increase Arizona Water's rates by 35.7% while their recommended rate increase is 10.73%. Staff's proposed rate design has the effect of imposing a 35.7% increase in the cost of water for Arizona Water's 658 5/8-inch meter customers while comparably sized customers in Ajo Improvement's service territory may actually see reductions in their rates based on the testimony of ACC Staff's witness, Crystal S. Brown.

Arizona Water is the only customer receiving treated water service from Ajo Improvement utilizing a 4-inch meter. Based upon an analysis of Arizona Water's customer characteristics, time of day pumping limitations and the characteristics of the delivery system and Ajo Improvement's proposed revenue requirement of \$752,767, Arizona Water proposes that it be served under a separate Wholesale Rate tariff consisting of a monthly minimum rate of \$210 and a commodity rate of \$2.67 per 1000 gallons. To reduce the potential cross-subsidy between Arizona Water's customers and Ajo Improvement's customers, a wholesale rate based on only the costs of serving Arizona Water should be developed to recover those costs. A rate design that recognizes the wholesale nature of the service provided by Ajo Improvement to Arizona Water is necessary to avoid the potential cross-subsidy. Arizona Water's proposed rate design recovers the variable cost of the treated water provided to Arizona Water and includes a fixed monthly meter charge to contribute to Ajo Improvement's fixed costs. Ajo Improvement has not advanced any convincing arguments why the commodity rates charged to a wholesale customer with a uniform daily demand should be the same as the commodity rate charged to full-service distribution customers with varying load factors and peak demands. Consequently, Arizona Water proposes a commodity rate of \$2.67 per 1000 gallons with a monthly minimum rate of \$210.